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Farmers Home Administration and The Banking Community

FARMERS HOME ADMINISTRATION, an agency of the U. S. Department of Agriculture, provides a supplementary source of credit for farmers and others in rural areas who are unable to obtain financing through conventional lenders. Loans are made by the agency for the following major purposes: operation, development and purchase of family farms; assistance to farmers in areas affected by natural disasters; construction and repair of housing; water development and soil conservation; shifts in land use. All applicants for Farmers Home Administration loans must supply evidence that they cannot obtain credit from conventional lenders at reasonable rates and terms.

--Cooperation with Private Lenders

In all of its loan activities, Farmers Home Administration maintains close working relationships with private lenders in rural areas. County supervisors of the agency are in professional contact with these lenders on almost a day-to-day basis. The two groups cooperate regularly on community credit and development problems. Farmers Home Administration supervisors are often called on by representatives of local lending institutions to discuss agricultural credit administration.

--Graduating Borrowers

Farmers Home Administration policy is to "graduate" its borrowers to conventional sources of credit as rapidly as their financial and farming position allows. In the past six years, an average of 32,000 borrowers each year either made the final payment on their loan or reached a financial position permitting them to refinance their Farmers Home Administration loan with other lenders.

--Participation with Private Lenders

The majority of Farmers Home Administration borrowers continue to obtain some of the credit they need from private lenders after they have received a loan from the agency. For example, a borrower may have a Farmers Home Administration farm ownership loan secured by real estate, while financing machinery and other operating needs through private credit. Another borrower may use the agency's credit to finance part of his operating expenses, such as fertilizer and feed, while purchasing needed machinery with a loan from a conventional lender. In one recent month, 2,759 of the borrowers who obtained operating credit from Farmers Home Administration were also using credit from conventional lenders. A Farmers Home Administration real estate loan also may be used to supplement existing real estate credit from a conventional lender. The borrower may not have enough equity in his farm to obtain additional financing from a private lender in order to develop his unit, even though such a step may be necessary if he is to continue as a successful farm operator. Farmers Home Administration may extend the additional financing needed, taking a second mortgage as security.

--Proof Credit Unavailable

Before Farmers Home Administration makes a loan, for whatever purpose, evidence is required that the applicant cannot obtain financing from a reputable private lender. This is a fundamental principle of the agency's operations, a principle that governs all of its loan programs and is established by law.

Howard Bertsch, Administrator of Farmers Home Administration has stated it is the responsibility of each State director of the agency, "To be sure that the services of the agency are made available only to families who actually need and are qualified for the types of financial assistance and supervision we have to offer. This is imperative if Farmers Home Administration is to retain its proper function in the agricultural credit field, namely, to supplement and not supplant other credit."

Between July 1, 1961 and June 30, 1962, approximately 30,000 applicants and others inquiring at Farmers Home Administration offices about the agency's loans were referred to conventional lenders because it appeared they had not adequately surveyed the availability of financing from that source. The number would be about the same in other recent years.

--Private Lenders Supply Funds

Many private lenders also share directly in the financing of Farmers Home Administration loans. About 82 percent of the amount loaned by the agency for farm ownership, labor housing, senior citizen rental housing and soil and water development is supplied by banks, insurance companies and other private lenders. Farmers Home Administration guarantees repayment of principal and interest to the lender. On April 30, 1962, a total of \$190 million in insured Farmers Home Administration loans were held by banks, insurance companies, savings and loan associations, and similar financial institutions. Private banks held 50 percent of the total.

--Stabilizing Force

Rural bankers know from first-hand experience that Farmers Home Administration loan activities provide a valuable source of credit and technical assistance to supplement private credit in farming areas.

Without such a source of supplementary credit, many more farm families would be forced either to liquidate their farming operations or continue in a chronically low-income situation. In either case, banks and other businesses in the community would lose potentially satisfactory borrowers and customers.

Farmers Home Administration loans and supervision assists farm families in the crucial period when they must upgrade their farming, yet are unable to obtain all the capital they need from conventional lenders to do so.

After the combination of credit and management aid has placed these families in a sounder financial position, they can usually move (or graduate) to conventional credit.

--Business Gains

Farm prosperity and the confidence that comes from a progressive family farm economy help maintain business activity in farm trading centers and communities at a high level. One of the most important community benefits of a sound, supervised credit program is in building steady customers for local banks, businesses and service trades.

The average farm ownership borrower who obtained a Farmers Home Administration loan in 1955 increased his expenditures for necessary farm supplies, equipment and other goods about 120 percent during the next five years. The amount he and his wife were able to spend on family living also rose sharply, from \$1,365 in 1955 to \$2,258 in 1961. Farm operating loan borrowers who repaid their loans in 1962 showed a similar pattern of farm and home expenditures during the time they were paying off their debts to the agency. Purchase of equipment, supplies and other items needed for efficient farm operations nearly doubled, while family purchases of consumer goods and other items for the home increased almost 50 percent.

The economic impact of other Farmers Home Administration loan programs is also direct and immediate. For example, in 1961 the agency financed construction of 28 homes in Marshall County, Alabama. No other credit was available to families who wanted to build these houses in the open country. The Farmers Home Administration-financed construction resulted in the expenditure of \$281,900 in the county. A total of 37,000 man-hours of employment resulted. Nearly \$200,000 was spent for building materials, such as lumber, cement blocks, and electric heaters.

In the absence of the Farmers Home Administration housing loan program, none of this building would have taken place. This example could be repeated in hundreds of rural counties throughout the nation.

--Supervision the Key Ingredient

The supervision that accompanies all Farmers Home Administration loans can be more important to the borrower than the loan itself. It includes training of borrowers in farm and financial management. This feature of the Farmers Home Administration program also provided a tremendous impetus for community progress. Bankers find that most farm families who have used Farmers Home Administration credit can manage money more effectively. Merchants find it easier to deal with families who are able to budget their expenditures. Public agencies find Farmers Home Administration borrowers active and interested citizen-participants in community affairs.

--Bankers Comment

Probably the best measure of Farmers Home Administration cooperation with conventional lenders and support of the entire private credit sector is the opinion of country bankers themselves on the subject. Following are some comments of representative bankers serving rural communities across the nation:

Darrell J. Hunter, cashier, Wright County Bank, Hartville, Missouri, "The Farmers Home Administration has served a very good purpose in this area. The farm families that they have assisted have been very well selected and many of them are now in a position to get adequate credit from other sources. The supervisors always keep us informed on the progress of their borrowers and when it is determined that the bank can provide their credit requirements the supervisor recommends that they contact their bank. This has been true in many instances. I have sent several applicants to them when I saw a need for the kind of supervision they could provide and the overall results have been good. "

Marvin R. Campbell, president, First National Bank of Crookston, Minnesota, speaking of farmers he has referred to the Farmers Home Administration, "In most of these instances, we continue to be in contact with the farmer, handling his checking accounts and other banking needs, with the thought in mind that we will again pick these customers up as soon as FHA has done the job of putting them back on their feet. We feel that under the administration of the FHA program this will be accomplished in many instances. "

Karl C. Harrison, vice president, First National Bank, Columbiana, Alabama, "The Farmers Home Administration in this county co-operates with our local bank 100 percent. "

Frank L. FitzSimons, vice president, the Northwestern Bank, Hendersonville, North Carolina, "The family-type farm has always been and still should be the backbone of American agriculture. The Farmers Home Administration is helping to preserve this bulwark against communism. "

W.O. Hall, executive vice president, Mason State Bank, Mason, Michigan, "I have been associated in the banking business from the beginning of the Farmers Home Administration. At no time in all these years has this bank felt the Farmers Home Administration program trespassed in the field of regular banking. "



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